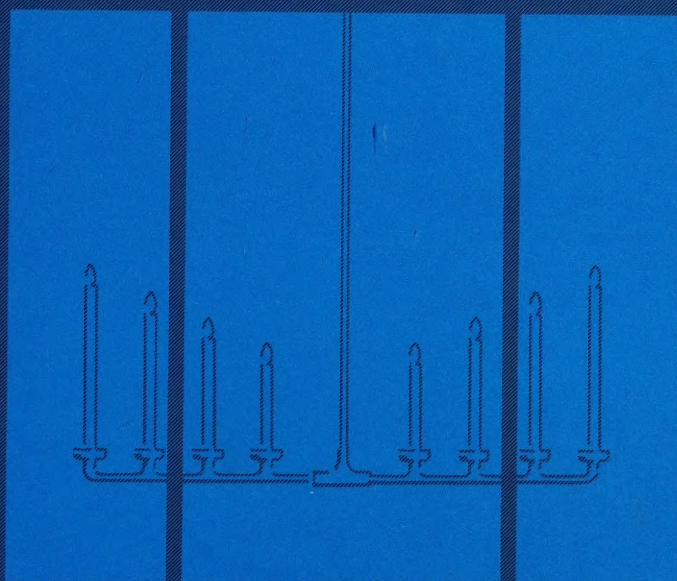
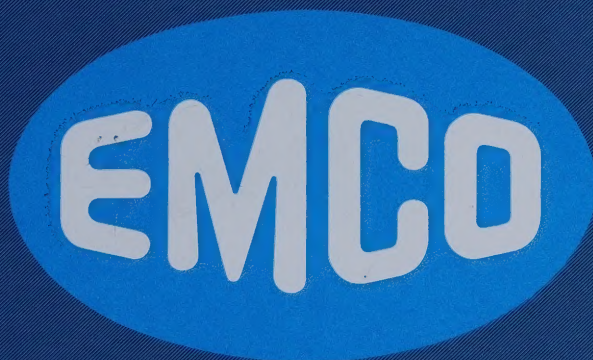


AR78



1964
annual
report



DIRECTORS

John W. Adams, F.C.A.	London, Ontario
Everett J. Chambers, Q.C.	Calgary, Alberta
C. Norman Chapman	London, Ontario
Philip A. Chester, F.C.A.	Winnipeg, Manitoba
Hon. Louis P. Gélinas	Montreal, Quebec
Charles H. Ivey	London, Ontario
C. Robert Ivey	Toronto, Ontario
Peter J. Ivey	London, Ontario
Richard G. Ivey, Q.C.	London, Ontario
John H. Stevens	London, Ontario
Douglas B. Weldon	London, Ontario

OFFICERS

John H. Stevens	Chairman of the Board
Peter J. Ivey	President
C. Norman Chapman	Executive Vice-President
John W. Adams, F.C.A.	Vice-President, Finance and Treasurer
Stuart F. Smith	Vice-President, Manufacturing
A. Robert Martin, C.A.	Comptroller and Secretary

TRANSFER AGENT and REGISTRAR

Royal Trust Company	Toronto, Montreal and Winnipeg
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AUDITORS

Peat, Marwick, Mitchell & Co.	London, Ontario
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To Our Shareholders

Your Board of Directors takes pleasure in presenting the 1964 Annual Report on the operations of Emco Limited and its subsidiaries. The year 1964 established new records in consolidated sales, earnings, and earnings per common share, and in making this report we pay tribute to the loyalty, enthusiasm, and performance of employees in all divisions of the Company whose contribution made these results possible.

Your Company participated in the record capital expenditures by Canadian business and in new housing and apartments, both of which reached record levels in 1964.

FINANCIAL

Consolidated net earnings for the year were \$1,493,853 compared to 1963 earnings of \$1,304,254, an increase of 15%. Earnings per common share were \$2.36 (plus 26 cents per share in non-recurring profit on the sale of real estate) compared to \$2.04 in the previous year, for an improvement of 16%. This represents the fifth consecutive year in which common share earnings have increased and, to a large extent, result from the substantial investment made by your Company during these years in new manufacturing facilities, products, and wholesale branches.

Consolidated sales, exclusive of sales taxes, in 1964 were \$54,280,000 and represented an increase of 7% over sales in 1963. The fourth quarter in Canada was particularly strong for the industry as some advance buying took place prior to the final Federal sales tax increase which became effective January 1, 1965.

Capital expenditures for the year were substantial and reflect the confidence of your Directors in the future. Net additions to fixed assets were \$1,238,000 and major expenditures were made throughout all divisions of the Company.

On March 9, 1964 your Directors increased the quarterly dividend on the common shares from 15 cents to 17½ cents per share, putting the shares on the basis of a 70 cent annual rate. At a meeting of the Directors on March 29, 1965 the quarterly dividend was again increased from 17½ cents to 20 cents per share, payable to shareholders of record on April 5, 1965. On the same date your Directors, subject to shareholder approval, recommended subdivision of the outstanding common shares on a 2 for 1 basis, and it is anticipated that the annual rate on the new shares will be 40 cents per share. It is the desire of your Board through this action to increase the number of shareholders in the Company, thereby broadening the interest of the public in Emco products and activities.

WHOLESALE DIVISION

Sales in the wholesale division increased at a rate slightly above the national construction percentage increase. Three new Emco wholesale branches were opened in leased premises in Halifax, Nova Scotia; Barrie, Ontario and Regina, Saskatchewan. The newly appointed managers of these branches are relatively young men who have demonstrated their abilities over a number of years service with the Company. Results in these three new locations for approximately eight months' operations are in line with earlier forecasts.

As previously reported to shareholders, your management found it necessary to close our Vancouver branch due to demands of a newly certified union, which would have made the earning of a profit in Vancouver impossible. Overall, the wholesale division experienced increased competitive pressure on gross profit margins, but achieved a



reduction in the ratio of operating costs to sales while bad debt write-offs were reduced to the lowest level in some years.

MANUFACTURING

Canada

In London, further expansion of plant amounting to approximately 37,000 square feet required for additional production of copper fittings was completed. These facilities are scheduled to go into operation towards the end of the second quarter of 1965. A good demand for Emco manufactured products existed throughout the year. High plant activity with effective cost control produced improved earnings.

Foreign Operations

Negotiations initiated early in 1964 for the purchase of substantially all of the assets of Buckeye Iron & Brass Works of Dayton, Ohio were finalized in February, 1965. Wheaton Brass Works of Union, New Jersey are partners with Emco in this American venture. Emco and Wheaton have been associated through reciprocal licensing arrangements for nearly forty years and are partners in Axiom-Wheaton Pty. Ltd. in Australia.

Buckeye manufactures fueling equipment for locomotives, aircraft and service stations, which complement Wheaton and Emco products. Integration of the three product lines will enable this subsidiary to offer a broader line of fluid handling equipment in the large U.S. market. Buckeye has licensees in Argentina and Australia for its automatic service station nozzle.

There were substantial capital expenditures on foundry modernization in our English subsidiary, with all one time start up expenses charged to 1964 operations. The sales

volume of our British subsidiary exceeded that of the previous year, and profits remained steady.

Emco A+A G.m.b.H., our German subsidiary, completed its first full year in a new plant, and recorded improved profits. The management group, with knowledge and skills partially acquired through the assistance of Emco personnel, have developed products of their own and appear well on the way to becoming an important, self-supporting part of the Company's international organization.

Axiom-Wheaton Pty. Ltd. had a record year. Our equity interest was increased to 27.8% during 1964. While this company is small, it is operating at capacity, and we are confident that in a few years our share of profits will be worthwhile.

Your executive is continuing its efforts to further expand its international organization in several other countries.

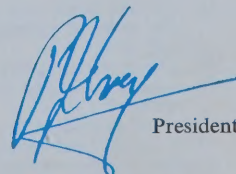
THE FUTURE

Total Canadian business capital expenditures in 1965 are expected to increase 12% over expenditures of 1964. Housing starts are expected to be 160,000 dwelling units and remain at the same level as 1964. The outlook for our overseas companies is good, and foreign profits should improve in 1965. As expected, the first quarter is getting off to a slow start due to advance buying ahead of the sales tax increase in December, however we are confident that 1965 will be another fine year for Emco.

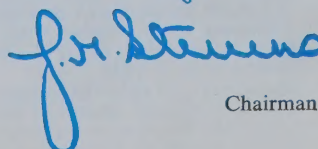
The major asset of this company does not appear in its balance sheet — the talents, enthusiasm and drive of a loyal group of men and women who devote their efforts to the success of this Company.

On behalf of the Board of Directors.

London, Ontario, March 29, 1965



President



Chairman

EMCO LIMITED AND ITS SUBSIDIARY COMPANIES



Assets	CURRENT ASSETS:	1964	1963
	Cash	\$ 228,777	206,123
	Marketable securities, at cost (quoted value 1964 \$573,018; 1963 \$557,275)	539,467	539,467
	Trade accounts receivable, less estimated allowance for doubtful accounts (1964 \$774,908; 1963 \$794,623)	8,419,600	7,491,036
	Inventories at the lower of cost or net realizable value	11,028,112	10,524,635
	Prepaid expenses	211,766	163,939
	Total current assets	<u>20,427,722</u>	<u>18,925,200</u>
	LONG TERM RECEIVABLES AND OTHER ASSETS	247,766	169,254
	INVESTMENT IN SHARES OF OTHER COMPANIES, AT COST	239,965	236,354
	FIXED ASSETS, AT COST, LESS DEPRECIATION:		
	Buildings and roadways	5,813,469	5,335,455
	Machinery and equipment	3,916,443	3,299,275
		<u>9,729,912</u>	<u>8,634,730</u>
	Less accumulated depreciation	4,757,736	4,300,686
		<u>4,972,176</u>	<u>4,334,044</u>
	Land	509,188	514,584
	Fixed assets, less depreciation	<u>5,481,364</u>	<u>4,848,628</u>
		<u>\$26,396,817</u>	<u>24,179,436</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- (1) The accounts of the company's foreign subsidiaries have been converted to Canadian dollars as follows:
 - (a) Current assets and current liabilities, at the rates of exchange prevailing at the year end.
 - (b) Fixed assets, at the average rates of exchange prevailing during the year of acquisition.
- (2) Under the provisions of the trust deed for the 5¼ % sinking fund debentures, the company is required to retire annually through the operation of the sinking fund a principal amount of debentures which increases from \$175,000 in 1965 to \$246,000 in 1972, an aggregate amount of \$1,670,000.
During the year 1964 the company purchased \$199,000 principal amount of the debentures which were delivered to the trustee for the debenture holders for cancellation. At December

31, 1964 all of the sinking fund obligations to that date had been met and \$153,500 principal amount of debentures had been tendered to the trustee in respect of the 1965 sinking fund requirement of \$175,000.

- (3) Capital stock:
 - (a) The trust deed relating to the debentures contains provisions whereby dividends may not be declared or paid, other than stock dividends or cumulative preference dividends, and the company may not effect any reduction to its capital stock which would reduce consolidated net current assets and shareholders' equity (as therein defined) below certain levels. At December 31, 1964, the consolidated net current assets and shareholders' equity (as so defined) were substantially in excess of the minimum levels.
 - (b) The provisions with respect to the 3% cumulative redeemable preference shares

FIVE YEAR FINANCIAL HIGHLIGHTS

	1964	1963	1962	1961	1960
SOURCE AND DISPOSITION OF FUNDS					
(Thousands of dollars)					
SOURCE OF FUNDS:					
Net earnings	\$ 1494	1304	940	781	767
Depreciation charged	605	545	495	468	459
Cash earnings	2099	1849	1435	1249	1226
Gain on sale of real estate	161	—	105	—	194
Issue of common shares	15	53	—	2	—
	2275	1902	1540	1251	1420
DISPOSITION:					
Capital expenditures (net)	1238	745	276	855	236
Redemption of preference shares	185	94	54	50	94
Dividends — preference	59	63	65	67	69
— common	425	362	300	300	225
Redemption of debentures	199	113	166	30	3
Investment in other companies	4	192	44	—	—
Other — net	72	(15)	84	10	(29)
	2182	1554	989	1312	598
Increase (decrease) in working capital	\$ 93	348	551	(61)	822
NET EARNINGS PER COMMON SHARE	\$ 2.36	2.04	1.46	1.19	1.16
NONRECURRING PROFITS—PER COMMON SHARE26	—	.18	—	.32
TOTAL EARNINGS PER SHARE OUTSTANDING AT DECEMBER 31	\$ 2.62	2.04	1.64	1.19	1.48
DIVIDENDS PAID PER SHARE—COMMON	\$.67½	.57½	.50	.50	.50
—PREFERENCE	\$.30	.30	.30	.30	.30
NET WORTH PER COMMON SHARE AT DECEMBER 31	\$19.01	17.11	15.73	14.60	13.91

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 - (b) The provisions with respect to the 3% cumulative redeemable preference shares

CONSOLIDATED BALANCE SHEET, DECEMBER 31, 1964
(with comparative figures for 1963)

	1964	1963	Liabilities
CURRENT LIABILITIES:			
Due to banks	\$ 4,510,471	3,612,194	
Notes payable	200,000	450,000	
Accounts payable and accrued expenses	3,786,075	3,257,018	
Dividends payable	134,413	121,723	
Income and other taxes payable	1,559,911	1,340,819	
Total current liabilities	<u>10,190,870</u>	<u>8,781,754</u>	
LONG TERM INDEBTEDNESS:			
5¼ % Sinking fund debentures maturing			
October 15, 1973—Note (2)	2,716,500	2,915,500	
Mortgage payable	20,625	28,125	
Total long term indebtedness	<u>2,737,125</u>	<u>2,943,625</u>	
MINORITY INTEREST IN SUBSIDIARY	43,894	28,482	
SHAREHOLDERS' EQUITY:			
Capital stock—Note (3):			
3% Cumulative redeemable preference shares			
with a par value of \$10 each. Authorized			
248,355 (1963—266,887) shares; issued and			
outstanding 186,755 (1963—205,287) shares	1,867,550	2,052,870	
Common shares without any nominal or par			
value. Authorized 1,100,000 shares; issued			
608,000 (1963 — 606,200) shares — stated			
value	169,350	154,815	
	<u>2,036,900</u>	<u>2,207,685</u>	
Consolidated retained earnings	11,388,028	10,217,890	
Total shareholders' equity	<u>13,424,928</u>	<u>12,425,575</u>	
	<u>\$26,396,817</u>	<u>24,179,436</u>	

Approved on behalf of the Board:

J. H. STEVENS }
J. W. ADAMS } Directors

include a requirement that the company shall apply to the redemption of preference shares, before July 1 in each year, a sum equal to 25% of the consolidated net earnings of the company (as defined in such provisions) in excess of \$500,000 for the immediately preceding fiscal year of the company after deducting from the said consolidated net earnings dividends for such fiscal year on the preference shares.

Pursuant to this requirement 18,532 preference shares were redeemed at par in 1964, an aggregate amount of \$185,320, to satisfy the 1963 requirement. To satisfy the 1964 requirement, \$233,761 must be applied to the redemption of preference shares on or before July 1, 1965.

(c) A share option plan was established in 1960 for certain executives whereby 30,000 of the company's authorized and

unissued common shares were reserved for issue under the plan. Since the inception of the plan, options have been granted for 17,700 shares and 8,000 shares have been taken up and issued under the plan, including 1,800 shares during 1964 for a cash consideration of \$14,535. The balance of the options may be exercised at various dates not later than December 31, 1970 at the following prices per share:

4,600 shares at \$8.07½ per share
1,600 shares at \$9.50 per share
3,500 shares at \$10.45 per share
9,700

(4) Subsequent to December 31, 1964 Emco Wheaton, Inc., a new U.S. company in which Emco Limited has a controlling interest, acquired substantially all of the net assets of Buckeye Iron & Brass Works of Dayton, Ohio, for approximately U.S. \$1,100,000.

STATEMENTS OF CONSOLIDATED EARNINGS AND CONSOLIDATED RETAINED EARNINGS, YEAR ENDED DECEMBER 31, 1964

(with comparative figures for 1963)

	1964	1963
CONSOLIDATED EARNINGS		
Operating profit before the undernoted items	\$ 4,013,904	3,515,374
Income from marketable securities	18,868	18,721
	<u>4,032,772</u>	<u>3,534,095</u>
DEDUCT:		
Depreciation	604,919	545,195
Fees of directors for services as such	11,900	12,950
Interest on bank and other advances	251,763	204,042
Interest on long term indebtedness	149,337	160,654
	<u>1,017,919</u>	<u>922,841</u>
Earnings before taxes on income	3,014,853	2,611,254
Taxes on income	1,521,000	1,307,000
Net earnings for the year	<u>\$ 1,493,853</u>	<u>1,304,254</u>
CONSOLIDATED RETAINED EARNINGS		
Amount at beginning of year	\$10,217,890	9,338,548
ADD:		
Net earnings for the year	1,493,853	1,304,254
Gain on sale of real estate	160,553	—
	<u>1,654,406</u>	<u>1,304,254</u>
	<u>11,872,296</u>	<u>10,642,802</u>
DEDUCT:		
Dividends:		
Preference	58,806	62,992
Common	425,462	361,920
	<u>484,268</u>	<u>424,912</u>
AMOUNT AT END OF YEAR	<u>\$11,388,028</u>	<u>10,217,890</u>

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Emco Limited and its subsidiary companies as of December 31, 1964 and the statements of consolidated earnings and consolidated retained earnings for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

London, Ontario,
February 27, 1965.

In our opinion, the accompanying consolidated balance sheet and the statements of consolidated earnings and consolidated retained earnings present fairly the financial position of the companies at December 31, 1964 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.
Chartered Accountants.



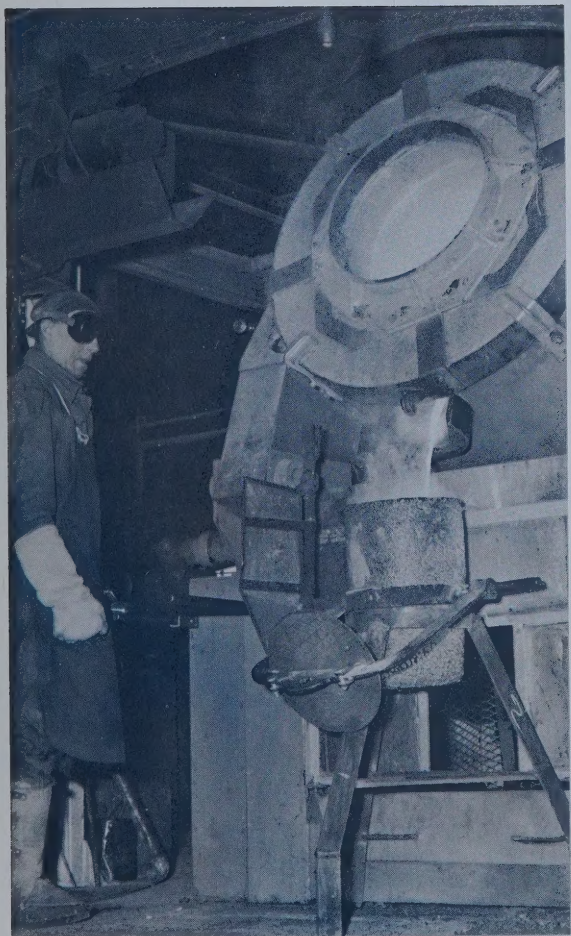
SHOWN in this eye-catching illustration is Emco's newest lavatory fixture trim. The picture is from a trade journal advertisement directed to contracting customers.

The trend to more luxurious appointments in modern bathrooms prompted this new design. Engineered and produced in the London, Ontario plant, these are available in Classic Line or in the Doric Line.

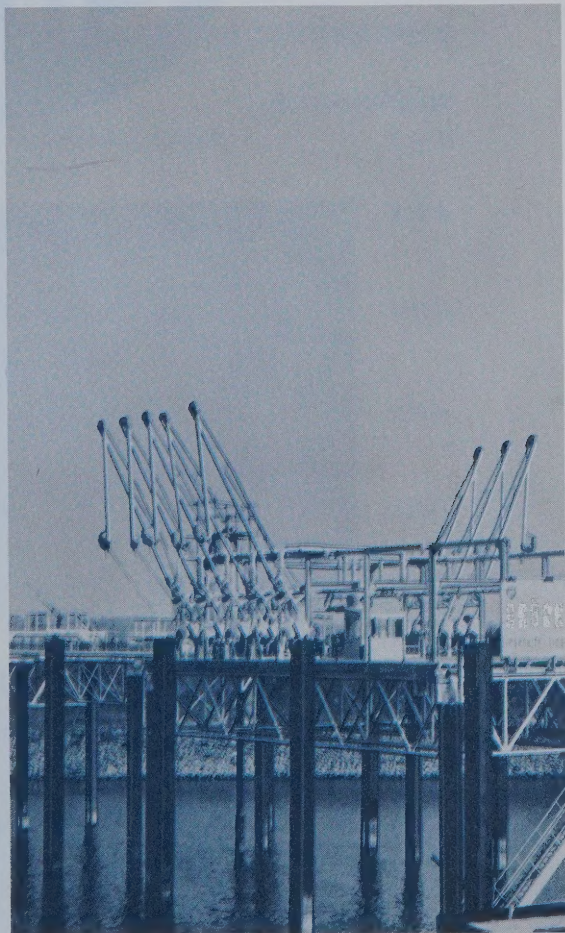
An important feature on these as well as all Emco fixture trim is the interchangeable "cartridge" replacement which fits any Emco fitting—an Emco exclusive.



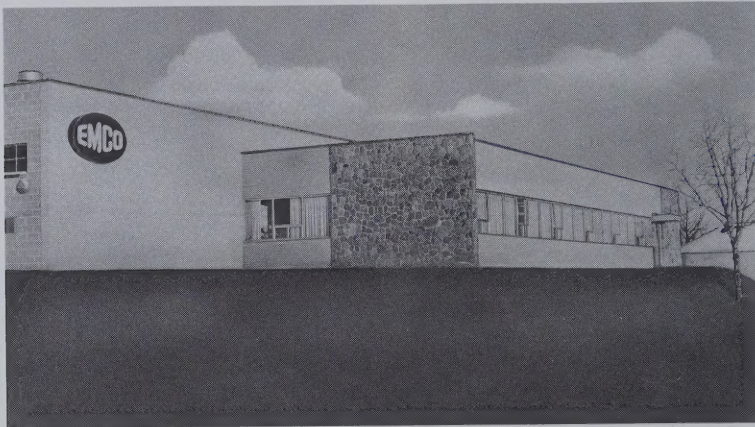
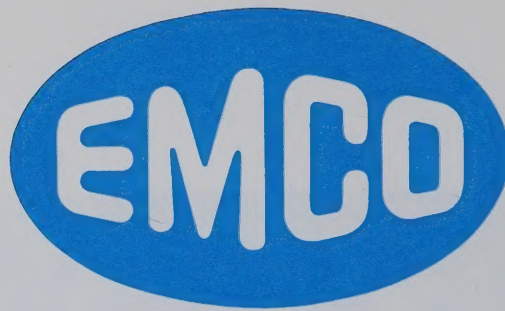
WHOLESALE operations in a country as big as Canada is very complex, and needs a strong sales force. The Emco wholesale division distributes the complete range of Emco manufactured products, including 6,000 items, and another 15,000 are purchased from other manufacturers for resale. Wholesale branches now number 24, strategically located across the country. Customers serviced include mechanical contractors and industrial accounts.



EMCO's 6,000-plus range of manufactured items—a range that is immense in more ways than one, since it includes items from an ounce in weight to seven tons—also includes an international manufacturing set-up. Plants in London, Canada; Margate, England; and Kirchhain, Germany; all contribute to Emco sales in 45 countries. Above, a foundryman in Emco's plant in Margate, England, where petroleum and petrochemical handling equipment is made.



AN important Emco development is the widely accepted dockside loader for oil and petrochemical tankers. The loader arms are precision counterbalanced units with no hydraulics or winches used. By using its self-adjusting counterbalanced mechanism and six swivel joints, the unit continually adapts itself to conditions of tide and movement of the barge or ship. Ease of handling means two men can connect the unit to the ship in a few minutes. Above an installation of eight loaders in Germany.



THE CORPORATE SYMBOL of Emco Limited has recently been simplified and strengthened. In its present form it derives directly from a raised "boss" in a forging, on which a name or other information can be moulded-in, stamped or engraved. The revised Emco trademark retains its distinction and practicability in large sizes—as shown above on an Emco truck and on the new Emco-Hamilton building—and when reduced in size for printed matter.

EMCO LIMITED / PRINCIPAL DIVISIONS AND SUBSIDIARIES

CANADA % OWNERSHIP

Canadian Clyde Tube and Forgings Limited, Mimico, Ontario <i>Distributor of steel welding fittings for industry.</i>	100%
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Emco Limited, London Factory Division, London, Ontario <i>Manufacturer of plumbing, heating and industrial piping products for sale to wholesalers.</i>	100%
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Emco Limited, Wholesale Division, 24 Branches across Canada <i>Distributors of plumbing, heating and industrial piping supplies to mechanical contractors and industry.</i>	100%
--	------

Emco Limited, Gas Division, Mimico, Ontario <i>Distributors of specialty products for the natural and propane gas industries.</i>	100%
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Emco-Wheaton Limited, Mimico, Ontario <i>Manufacturer and distributor of fluid handling equipment to the petroleum and petrochemical industries.</i>	100%
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U.S.A.

Emco Wheaton, Inc., Dayton, Ohio (acquired February 26, 1965) <i>Manufacturer and distributor of specialty equipment to the petroleum industry in the U.S.A.</i>	51%
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OVERSEAS

Emco A+A.G.m.b.H., Kirchhain, Germany <i>Manufacturer of fluid handling equipment for petroleum and petrochemical industries in Western Europe.</i>	76%
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Emco Brass Mfg. Co. Limited, Margate, England <i>Manufacturer of fluid handling equipment to petroleum and petrochemical industries in the United Kingdom and to agents throughout the world.</i>	100%
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*Axiom-Wheaton Pty. Ltd., Melbourne, Australia <i>Manufacturer of fluid handling equipment to petroleum and petrochemical industries in Australia and the Far East.</i>	27.8%
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*Not a subsidiary company and therefore is not consolidated with the financial results of Emco Limited.



EMCO LIMITED

LONDON, CANADA